

Message Text

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ACTION AF-06

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-03 H-01

INR-07 L-02 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 COME-00 EB-07 LAB-04 SIL-01 SAM-01 IO-10

AID-05 FRB-03 TRSE-00 XMB-02 OPIC-03 CIEP-01 OMB-01

/100 W

----- 007444

R 031530Z MAR 75

FM AMCONSUL LUANDA

TO SECSTATE WASHDC 3300

INFO AMEMBASSY KINSHASA

AMEMBASSY LISBON

AMEMBASSY LUSAKA

AMEMBASSY PRETORIA

AMEMBASSY DAR ES SALAAM

CINCLANT FOR POLAD

AMEMBASSY PARIS

AMEMBASSY JOHANNESBURG

AMCONSUL CAPE TOWN

AMCONSUL LOURENCO MARQUES

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E.O. 11652: N/A

TAGS: ELAB AO

SUBJECT: UPDATE ON THE ECONOMIC SITUATION

1. BEGIN SUMMARY. AFTER ONE MONTH IN OFFICE, ANGOLA'S TRANSITIONAL GOVERNMENT HAS TAKEN CONCRETE STEPS AIMED AT REVERSING THE COUNTRY'S DEEPENING ECONOMIC SLOWDOWN. OF GREATEST CONCERN HERE ARE THE GENERALIZED LABOR PROBLEM, PORT CONGESTION, FOREIGN EXCHANGE RESERVES, UNEMPLOYMENT, INFLATION AND DEPARTURE OF WHITES. END SUMMARY.

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2. LABOR SCENE. ANGOLA'S CONTINUING LABOR PROBLEM HAS TWO

COMPONENTS, UNFORTUNATELY ONLY ONE OF WHICH - OUTRIGHT STRIKE ACTIVITY - IS SUSCEPTIBLE TO SPECIFIC COUNTER-MEASURES. WHILE A FLAT PROHIBITION ON STRIKES HASN'T YET BEEN IMPOSED, SUBSTANTIAL MORAL SUASION IS BEING USED AND TO SOME EFFECT. THE OTHER COMPONENT, A PERVERSIVE, UNORGANIZED SLOWDOWN, CONTINUES TO HAVE INCREASINGLY SERIOUS EFFECTS. WORSE, IT APPEARS BASICALLY UNSOLVABLE IN THE SHORT RUN. FOR THE AFRICAN WORKER THE END OF COLONIALISM SIGNIFIES ABOVE ALL ELSE THE WELCOME DEMISE OF THE WHITE FOREMAN'S EFFORTS TO PUSH THE PRODUCTION PACE. WITHOUT THE OLD SYSTEM'S LABOR COERSION, PER-HOUR LABOR PRODUCTIVITY HAS PLUMMETED. WHILE UNITA AND FNLA SEEM DISPOSED TO FORCIBLY REINSTITUTE A DEGREE OF LABOR DISCIPLINE, TO DO SO WOULD GIVE MPLA THE OPPORTUNITY TO MAKE POLITICAL GAINS AMONG LABORERS BY RESISTING SUCH AN EFFORT. THERE IS ALSO THE GROWING PROBLEM OF THE WHITE PORTUGUESE WORKER WHO, SEEING HIS FUTURE HERE AS UNCERTAIN AT BEST, IS PUSHING HARD FOR UNSUPPORTABLE WAGE INCREASES NOW AND EXORBITANT SEPARATION BONUSES TO COVER HIS POSSIBLE DEPARTURE. ON THIS QUESTION, HOWEVER, THE GOVERNMENT IS BECOMING INCREASINGLY ALLIED WITH MANAGEMENT, BOTH OF WHOM HAVE A DESIRE TO AVOID FURTHER DAMAGE TO THE ECONOMY THROUGH MORE INFLATIONARY WAGE INCREASES OR LATER PAYMENT OF LARGE AMOUNTS OF TERMINATION PAY.

3. THE WHITE EXODUS. TAKING ITS FIRST STEP TO SLOW THE OUTFLOW THE TRANSITION GOVERNMENT HAS PROHIBITED EXPORT OF ALL ITEMS NOT CLEARLY PERSONAL OR HOUSEHOLD EFFECTS. PASSENGER CARS ORIGINALLY PURCHASED WITH LICENSED FOREIGN EXCHANGE CANNOT BE EXPORTED UNLESS OWNED BY THE EXPORTER FOR MORE THAN A YEAR. THERE IS NO RESTRICTION HOWEVER, ON THE EXPORT OF AUTOMOBILES PURCHASED WITH PARALLEL MARKET FOREIGN EXCHANGE AND THIS IS A POPULAR, IF COSTLY, WAY OF SENDING OUT LIMITED AMOUNTS OF CAPITAL.

4. LIQUIDITY. FROM MID TO LATE 1974 ANGOLA SUFFERED FROM A SERIOUS LACK OF BANKING SYSTEM LIQUIDITY. ACCORDING TO BANKING SOURCES THIS HAS BEEN REMEDIED BY TRANSFUSING THE ECONOMY WITH LARGE AMOUNTS OF NEWLY PRINTED MONEY. THUS FAR THE AMOUNTS PUMPED IN APPEAR TO HAVE BEEN ON THE MARK IN THAT THE PROBLEM HAS BEEN SOLVED TEMPORARILY WITHOUT MATERIALLY WORSENING ANGOLA'S OTHERWISE SERIOUS RATE OF INFLATION. INFLATION HERE IS STILL ALMOST ENTIRELY A RESULT OF A) PRICE INCREASES FOR LIMITED OFFICIAL USE

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IMPORTS, B) POLITICALLY-IMPOSED WAGE INCREASES AND C) FALLING LABOR PRODUCTIVITY.

5. UNEMPLOYMENT. THE SHARP DROP OFF IN CONSTRUCTION IS LARGELY RESPONSIBLE FOR INCREASED URBAN UNEMPLOYMENT, ALMOST ALL OCCURRING IN UNSKILLED AND SEMI-SKILLED CATEGORIES. THIS PROBLEM WOULD BE CONSIDERABLY WORSE IF NOT FOR SUBSTANTIAL RECRUITMENT OF YOUNG URBAN BLACKS INTO THE ARMED FORCES OF THE LIBERATION GROUPS.

EACH GROUP IS COMMITTED BY THE ALVOR AGREEMENT TO SUPPLY 500
MEN PER MONTH FOR FEBRUARY THROUGH MAY AND EACH GROUP IS
EXPECTED TO FULFILL ITS COMMITMENT WITH NEW RECRUITS TO THE EXTENT
POSSIBLE RATHER THAN GIVING UP EXPERIENCED CADRE.

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6. FOREIGN EXCHANGE/CREDIT. ALTHOUGH THE LEVEL OF ANGOLA'S
EXCHANGE RESERVES IS CLOSELY-HELD INFORMATION, THE DEGREE OF
CONCERN BEING PUBLICLY VOICED BY THE GOVERNMENT INDICATES THEY
ARE DROPPING RAPIDLY. FURTHER EVIDENCE IS THE REPORTED RECENT
CANCELLATION OF A PORTION OF THE IMPORT LICENSES ISSUED FOR
FIRST QUARTER 1975 EVEN THOUGH THE LICENSES WERE ORIGINALLY

ISSUED FOR AMOUNTS OF EXCHANGE IDENTICAL TO LAST YEAR'S FIRST
QUARTER. IN EFFECT, THAT IS A 30-35 PERCENT DROP IN REAL TERMS,
GIVEN THE EFFECT OF SHIPPING RATE SURCHARGES ON TOP OF NORMAL
SOURCE PRICE INFLATION. ACCORDING TO A GOVERNMENT SOURCE,
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FRENCH AND GERMAN BANKS HAVE STOPPED COMMERCIAL LENDING TO
ANGOLA WHILE BY CONTRAST U.S. BANKS ARE REPORTEDLY INCREASING
THEIR EXPOSURE. ADDITIONAL BRITISH BANK CREDIT HAS BEEN
APPRECIABLY REDUCED BUT NOT ACTUALLY STOPPED. CITY CORP HAS
NOW APPROXIMATELY \$30 MILLION IN SOVEREIGN RISK HERE, MOST
OF WHICH WAS PLACED AFTER THE PORTUGUESE COUP.

7. THE PORT. SINCE TRANSMISSION OF OUR PREVIOUS REPORT, THERE
WAS A SLIGHT IMPROVEMENT IN THE PORT SITUATION BUT NOT ENOUGH TO
MAKE A DENT IN THE BACKLOG. ON FEBRUARY 27 THE GOVERNMENT
ORDERED TROOPS TO MOVE IN TO ENSURE THAT STEVEDORES AND OTHERS
WORK UP TO STANDARD. AT THE SAME TIME THE ADMINISTRATION SAYS IT
WILL IMPROVE HEALTH CARE FOR THE WORKERS, INSTALL CAFETERIAS,
PROVIDE JOB TRAINING AND MODERNIZE EQUIPMENT. A MILITARY SOURCE
HAS TOLD US THAT 196 TROOPS OF THE MIXED FORCE WILL BE PLACED IN
THE PORT BEGINNING MARCH FOUR. THEY WILL BE UNDER THE COMMAND OF
A PORTUGUESE OFFICER AND THE PORT CAPTAIN.

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